DATUK TAN LENG TECK

v.

SARJANA SDN. BHD. & ORS.

HIGH COURT MALAYA, MELAKA
AUGUSTINE PAUL JC
[CIVIL SUIT NO: 22-46 OF 1995]
24 FEBRUARY 1997

COMPANY LAW: *Shares - Allotment of Shares - Financial assistance for purchase of company's shares - Companies Act 1965, s. 67*

CONTRACT: *Void contract - Admissibility of evidence to contradict contents of documents - Illegality - Contravention of law - Non-compliance with statute - Contracts Act 1950, s. 24*

EVIDENCE: *Best evidence - Document - Real evidence, production of - Documentary evidence - Entry in return of allotment of share - Evidence admissible which does not vary or contradict document - Evidence Act 1950, ss. 91 & 92*

CIVIL PROCEDURE: *Parties - Application for declaration - Locus standi - Illegality*

CIVIL PROCEDURE: *Judicial precedent - Federal Court - Conflicting decisions - Later decision did not over-rule earlier decision - Whether inferior Court can choose to follow either decision*

The issue before the Court was the validity of a subscription for shares made in a company pursuant to the company itself providing financial assistance for the transaction in contravention of s. 67 of the Companies Act 1967.

The plaintiff and two other persons were shareholders of a company called Sarjana Sdn. Bhd. ('the 1st defendant'). The 1st defendant bought from one Sin Hong Teng Company Sdn. Bhd. a piece of land in Melaka and subsequently resold it to Pasti Hasil Sdn. Bhd. ('the 2nd defendant') *via* an Agreement dated 19 June 1992.

It was a term of the said agreement that upon the execution of the Agreement the 2nd defendant was to pay the 1st defendant a sum of RM3,300,000, being part of the total purchase price for the land. Out of the said RM3,300,000, the 1st defendant was required to capitalise as paid-up capital a sum of RM1,000,000 which would be treated as payment of the 2nd defendant's subscription of 1,000,000 shares in the 1st defendant.

Upon execution of the said agreement, the sum of RM3,300,000 was duly paid by the 2nd defendant to the 1st defendant and a Resolution of the 1st defendant was passed at an extraordinary general meeting of the 1st defendant to allot the said 1,000,000 shares to the 2nd defendant. The said Resolution together with the Return of Allotment of Shares were duly filed with the Registrar of Companies.

The present action was brought by the plaintiff for a declaration that the allotment of shares to the 2nd defendant by the 1st defendant was null and void as it amounted to the 1st defendant providing financial assistance to the 2nd defendant to subscribe for the shares in the 1st defendant in breach of s. 67(1) of the Companies Act 1965.

To prove his case, the plaintiff relied on the entries in the Return of Allotment of Shares which showed that the shares were allotted to the 2nd defendant on a fully paid-up basis. Plaintiff contended that pursuant to s. 91 and 92 of the Evidence Act 1950, the contents of the Return of Allotment of Shares cannot be contradicted.

Defendants contended that the plaintiff had no locus standi to maintain the present action as only the 1st defendant may do so in accordance with s. 67(6) of the Companies Act 1965. Moreover the transaction was done in good faith and hence not affected by the section. Defendants further submitted that if the Court found that there was a violation of s. 67(1), then the allotment of the shares ought to be validated under s. 63 of the Companies Act 1965.

The issues before the Court were:

(i) The extent to which the contents of documents falling within the category of documents to which s. 92 of the Evidence Act 1950 applies can be contradicted.

(ii) Whether financial assistance was provided by the 1st defendant within the meaning of s. 67(1) of the Companies Act 1965?

(iii) If the answer to the above is yes, whether a transaction entered into in contravention of s. 67(1) would attract s. 24 of the Contracts Act 1950 to render the transaction void in the light of the penalties provided in s. 67(3) and the unambiguous saving provision contained in s. 67(6) and having regard to the context and purpose of s. 67(1)?

(iv) Whether plaintiff had the *locus standi* to bring the action?

Held:

[1] On the fundamental features of s. 91 and 92 of the Evidence Act 1950, the best evidence about the contents of a document would be the document itself, and the production of the document that was required by s. 91 of the Evidence Act 1950 in proof of its contents. The rule enunciated by s. 91 is an exclusive rule inasmuch as it excluded the admission of oral evidence for proving the contents of the document except in cases where secondary evidence was allowed to be led under the relevant provisions of the Evidence Act 1950. After a document had been produced to prove its terms under s. 91, then the provisions of s. 92 would come into operation to exclude evidence of any oral agreement or statement, for the purpose of contradicting, varying, adding to or subtracting from its terms.

[2] It would be incorrect to say that s. 92 prohibits a document coming within its ambit from contradiction absolutely. After a comparison of the wordings of both s. 91 and 92, the Court noted that the phrase as it appeared in s. 91 was not qualified in its operation by other words in the section. Therefore, it applied to any matter which was required by law to be reduced to the form of a document. Consequently, it applied to both bilateral and unilateral and dispositive and non-dispositive documents. On the other hand s. 92 was qualified by the phrase " ... no evidence of any oral agreement or statement shall be admitted **as between the parties to any such instrument or their representatives in interest** ... ." This phrase clearly and crisply connote in crystalline terms that the documents contemplated by s. 92 would have to be bilateral and dispositive in nature. It therefore follows that s. 92 does not apply to all the documents that come within s. 91. Section 92 had no application to unilateral and non-dispositive documents and in consequences thereof, oral evidence could be admissible to contradict them. Hence, the Return of Allotment of Shares, being a unilateral document, could be contradicted if the facts warrant it.

[3] The Court came to the above conclusion after having disregarded the decision of the Federal Court in *Ah Mee v. PP* and, instead, relied on the decision of the Federal Court in *PP v. Datuk Haji Harun bin Hj Idris.* Where the *ratio decidendi* of two decisions of a higher Court of equal jurisdiction conflict with one another and the later decision did not purport to over-rule the earlier, an inferior Court could choose which *ratio decidendi* it intends to follow, and in doing so, it could act on its own opinion as to which was the more convincing. The Court held that the proper interpretation to be accorded to s. 92 was the decision in *Datuk Harun's* case as it was more convincing.

[4] The words "or otherwise" found in s. 67(1) are very wide and mean "in any other way". The prohibition, therefore, was on the company giving, in any way, any financial assistance for the purpose of or in connection with a purchase or subscription made or to be made by any person for any shares in the company. The question whether the company has impugned s. 67(1) was whether it had diminished its financial resources, including future resources, in connection with the sale and purchase of its shares. Accordingly, if the transaction was a *bona fide* commercial transaction entered into in good faith, the fact that the proceeds of the transaction was used to assist in acquiring the company's shares would not make the transaction illegal.

[5] On the facts of the case, the 1st defendant assisted the 2nd defendant to acquire the one million shares financially as the transaction that they entered into resulted in the 2nd defendant obtaining the shares without any payment by reason of RM1 million accruing from the sale of the land being treated as payment for the shares. This had resulted in the 1st defendant's assets being diminished in value. Moreover, the subscription of shares in the 1st defendant by the 2nd defendant was not a commercial transaction as far as the 1st defendant was concerned. It was not a transaction whereby the 1st defendant acquired anything which it genuinely needed for its own purpose. On the other hand, it was a transaction which facilitated the 2nd defendant's acquisition of control of the 1st defendant for its own purpose. It was certainly not a transaction in the ordinary course of the 1st defendant's business. The 1st defendant had provided financial assistance to the 2nd defendant for the subscription of the one million shares within the meaning of s. 67(1).

[6] Section 24 of the Contracts Act 1950 provided that if an agreement was forbidden by law or prohibited by law or was of such a nature that it would defeat the law, that agreement would be unlawful and void. However, a contract which is prohibited by statute does not become void and unenforceable if the statute itself saves the contract or there are contrary intentions which can reasonably be read from the language of the statue itself. Section 24 cannot then apply to such a contract as the statute itself had saved the contract which would otherwise be forbidden. It is only in a rare situation in which a statute prohibits a contract but nevertheless reveals an intention that it shall be valid and enforceable. Section 67 is one of the instances of such rare exercise of legislative power. The Court held that as s. 67(3) prescribed penalties for a breach of s. 67(1) and s. 67(6) provided remedies for the breach and, furthermore, having regard to the context and purpose of s. 67(1), any transaction

entered into in breach of the section would be valid and enforceable. In the circumstances, the transaction in this case does not become void and unenforceable.

[7] The language of s. 67(6), as it then stood, made it clear that only the company had the *locus standi* to institute an action in respect of a transaction entered into in contravention of s. 67(1). The amendment Act A830 which introduced the words " ... or any person ... " to be added after the word "... company ..." in s. 67(6) only came into being subsequent to this action and was not made with retrospective effect. As such, the plaintiff was still bound by s. 67(6) as it stood prior to the amendment with the result that he was precluded from instituting a suit under s. 67.

[Plaintiff's claim dismissed with costs.]

Cases referred to:

Mookapillai & Anor. v. Liquidator, Sri Saringgit Sdn. Bhd. & Ors. [1981] 2 MLJ 114 ***(refd)***

Kidurong Land Sdn. Bhd. & Anor. v. Lim Gaik Hua & Co. [1990] 1 MLJ 485 ***(refd)***

Ah Mee v. PP [1967] 1 MLJ 220 ***(not foll)***

Keng Huat Film Co. Sdn. Bhd. v. Makhanlall (Properties) Pte. Ltd. [1984] 1 MLJ 243 ***(refd)***

Eushun Properties Sdn. Bhd. v. MBF Finance Bhd. [1992] 1 CLJ 1519 ***(refd)***

Intraco Ltd. v. Multi-Pak Singapore Pte Ltd. [1995] 1 SLR 313 ***(refd)***

Co-operative Central Bank Ltd. (In receivership) v. Feyen Development Sdn. Bhd. [1995] 4 CLJ 300 ***(refd)***

Bai Hira Devi v. Official Assignee AIR [1958] SC 448 ***(refd)***

Herchun Singh and Ors. v. PP [1969] 2 MLJ 209 ***(refd)***

PP v. Datuk Haji Harun bin Idris & Ors. [1977] 1 MLJ 180 ***(foll)***

Director-General of Inland Revenue v. Ee Sim Sai [1977] 2 MLJ 323 ***(refd)***

Inspector General of Police & Anor. v. Alan Noor bin Kamat [1988] 1 MLJ 260 ***(refd)***

R v. Warner 1 Keb. 66 ***(refd)***

Baker v. The Queen [1975] AC 774 ***(refd)***

PP v. Pavone [1986] 1 MLJ 72 ***(refd)***

PP v. Lee Eng Kooi [1993] 2 CLJ 534 ***(refd)***

PP v. Krishnan a/l Letchumanan & Anor. [1995] 2 MLJ 690 ***(refd)***

PP v. Sulaiman bin Mohamed Noor [1996] 1 MLJ 196 ***(refd)***

Re Exchange Banking Co. (Flitcroft's Case) [1882] 21 Ch. D 519 ***(refd)***

EH Dey Pty Ltd. (In Liquidation) v. Dey [1966] VR 464 ***(refd)***

Burton v. Palmer [1980] 2 NSWLR 878 ***(refd)***

Belmont Finance Corporation v. Williams Furniture Ltd. (No. 2) [1980] 1 All ER 393 ***(refd)***

Charterhouse Investment Trust Ltd. & Ors. v. Tempest Diesels Ltd. [1989] B CLCI ***(refd)***
Rossfield Group of Operations Pty Ltd. v. Austral Group Ltd. [1981] Qd R 279 ***(refd)***
Re VAM Holdings [1912] 1 All ER 224 ***(refd)***
Phoenix Insurance v. Adas [1987] 2 All ER 152 ***(refd)***
Yango Pastoral Co. Pty Ltd. v. First Chicago Australia Ltd. [1978] 139 CLR 410 ***(refd)***
Chung Khiaw Bank Ltd. v. Hotel Rasa Sayang Sdn. Bhd. & Anor. [1990] 1 MLJ 356 ***(refd)***
Coramas Sdn. Bhd. v. Rakyat First Merchant Bankers Bhd. [1994] 2 CLJ 143 ***(refd)***
Che Wan Development Sdn. Bhd. v. Co-operative Central Bank Bhd. [1990] 2 CLJ 35 ***(refd)***
Co-operative Central Bank Bhd. v. Sykt. Bukit Tinggi & Ors. [1991] 1 CLJ 590 ***(foll)***
The Batu Pahat Bank Ltd. v. The Official Assignee of the Property of Tan Keng Tin, A Bankrupt [1933] MLJ 237 ***(refd)***
Sajan Singh v. Sardara Ali [1960] MLJ 52 ***(refd)***
Mookapillai & Anor. v. Liquidator, Sri Saringgit Sdn. Bhd. & Ors. [1981] 2 MLJ 114 ***(refd)***
Kidurong Land Sdn. Bhd. & Anor. v. Lim Gaik Hua & Co. [1990] 3 MLJ 485 ***(refd)***
Tinsley v. Milligan [1993] 3 All ER 65 ***(refd)***
Wai Hin Tin Mining Co. Ltd. v. Lee Chow Beng [1968] 2 MLJ 251 ***(refd)***
Lee Chua (f) v. Mustafa b. Osman [1966] 1 AMR 680 ***(refd)***
Spink (Bouremouth) Ltd. v. Spink [1936] 1 All ER 597 ***(refd)***
Carney v. Herbert [1985] AC 301 ***(refd)***

Legislation referred to:

Companies Act 1965, ss. 63, 67(1), 133(1), 369(1)(a), (2)
Contract Act 1950, ss. 24
Evidence Act 1950, ss. 91, 92
Interpretation Acts 1948 & 1967, s. 68
Ordinance No. 155 (Companies) of the Straits Settlements, s. 111

Other source referred to:

Law of Evidence, Woodroffe & Amir Ali's, Vol. III, 15th Edn., p. 71
Sarkar on Evidence 14th Edn., pp. 1195-1196, 1201
Evidence Precedents in English Law, Cross & Harris, 4th Edn., pp. 158-159
Statutory Interpretation, by Francis Bennion, 2nd Edn., p. 490

For the plaintiff - Yau Jiok (Hazudin bin Hashim with him); M/s. Yau Jiok Hua & Co.
For the 1st & 2nd defendants - Prasad Abraham (Jenny Cheong Yee Bing with him); M/s. Prasad Abraham & Assoc.
For the 3rd, 4th & 5th defendants - Marridzuan bin Mohamad; M/s. Jargit & Partners

JUDGMENT

Augustine Paul JC:

The preponderant issue for adjudication in this case is the validity of a subscription for shares made in a company pursuant to the company itself providing financial assistance for the transaction in contravention of s. 67 of the Companies Act 1965 (s. 67).

Datuk Tan Leng Teck, the plaintiff, was an advocate and solicitor practising under the name and style of M/s. Tan & Co. He and two other persons named Tan Guat Ngo and Tan Bock Chuan were the shareholders of a company called Sarjana Sdn. Bhd. (the 1st defendant) which had a paid up capital of 5700 ordinary shares of RM1 each. The plaintiff described the 1st defendant as "my" company and said that he used it as a vehicle to purchase 132.7072 acres of land in the Mukim of Krubong, District of Melaka Tengah, State of Melaka and known as Lot No 942 held under Geran No. Pendaftaran 3385 (the land) from one Sin Hong Teng Company Sdn. Bhd. by an agreement dated 8 June 1992. The agreement discloses that the purchase price of the land was RM4,910,166 and that the solicitors for the vendors were M/s. Tan & Co. Eleven days later, that is to say, on 19 June 1992 the 1st defendant entered into an agreement with Pasti Hasil Sdn. Bhd. (the 2nd defendant) to re-sell the land to the latter at a price of RM15,896,995.

It is necessary to reproduce some of the salient clauses in the agreement entered into between the 1st and the 2nd defendant who is described as the "Developer" in the agreement. They are:

> 1.0 CONSIDERATION.
>
> 1.1 In consideration of the sum of Malaysian Ringgit Fifteen Million Eight Hundred and Ninety Six Thousand Nine Hundred Ninety Five (M$15,896,995) (hereinafter referred to as "the consideration sum") only to be paid by the Developer to SARJANA in the manner set out in clause 4.1 hereof SARJANA hereby agrees to sell and the Developer agrees to purchase the Project Land with vacant possession and free from all encumbrances but subject to all conditions of title whether express or implied, if any, affecting the Project Land and subject to all terms and conditions hereinafter contained.
>
> 2.13 That upon payment of Malaysian Ringgit Three Million and Three Hundred Thousand (M$3,300,000) only being part of the consideration sum by Developer, SARJANA will capitalise as paid up capital the sum of Malaysian Ringgit One Million (M$1,000,000) only.

4.0 PAYMENT OF CONSIDERATION

4.1 The consideration of Malaysian Ringgit Fifteen Million Eight Hundred Ninety Six Thousand Nine Hundred and Ninety Five (M$15,896,995) only shall be paid by the Developer in the manner and within the time as follows:

(a) The sum of Malaysian Ringgit Three Million Three Hundred Thousand (M$3,300,000) only shall be paid to SARJANA upon execution of this Agreement pursuant to clause 4.2.

4.2 All sums payable by the Developer shall be deposited with M/s. WAN SUFIAN & CO., Advocates & Solicitors, 6th Floor Wisma Yakin, Jalan Masjid India, 50100 Kuala Lumpur who are hereby authorised to release Malaysian Ringgit Three Million and Three Hundred Thousand (M$3,300,000) only to M/s. TAN & CO., Advocates & Solicitors, No. 2 Lorong Gereja, Melaka (hereinafter referred to as the Stakeholders) for fulfilment of the conditions stipulated in clause 3,

(a) the sum of Malaysian Ringgit One Million (M$1,000,000) only to be released directly to SARJANA for the purpose of increasing its paid up capital to be subscribed solely by the Developer.

The sum of RM3,300,000 as agreed was duly paid by M/s. Wan Sufian & Co. to the plaintiff's legal firm of M/s. Tan & Co. on 22 June 1992. The plaintiff banked in the money into his clients' account the following day. The bank statement to establish the payment in was marked as Exh. P3 by consent. That was the only sum received from M/s. Wan Sufian & Co. M/s. Tan & Co. then wrote to the 1st defendant saying that they had received the sum of RM3,300,000. The material parts of the letter which was marked as Exh. P4 by consent read as follows:

OUR REF: TLT/151/89/Amy
DATE: 22nd June 1992

The Board of Directors
Sarjana Sendirian Berhad
26 Jalan Laksamana
75000 MELAKA

Dear Sir,

SARJANA SENDIRIAN BERHAD

We refer to the Malayan Banking Berhad, Kuala Lumpur Bank Draft No. 150363 dated 22nd June 1992 for the sum of M$3.3 million remitted to our firm's client account.

We would advise that out of the above total amount of M$3.3 million an amount of M$1 million is in respect of share application money received from PASTI HASIL SDN. BHD. in connection with application for 1,000,000 ordinary shares of $1 each fully paid in Sarjana Sendirian Berhad. The above amount of M$3.3 million together with a further amount of M$2.0 million yet to be released by Kewangan Usaha Bersatu Berhad making a total sum of M$5.3 million being part payment of the total purchase price of the land known as Lot 942 held under Grant No. 003385, Mukim of Krubong, District of Melaka Tengah, State of Melaka and other expenses thereof.

In elaborating on the payments referred to in Exh. P4 the plaintiff said in his evidence:

The payment in P4 refers to the payment made pursuant to P1. The 2nd paragraph means that out of the $3.3 million $1 million is to be treated as payment for the 2nd Defendant's subscription of 1 million shares in the 1st defendant. (Emphasis added).

The one million shares in the various communications that I have adverted to had been alloted to the 2nd defendant pursuant to a resolution passed by the 1st defendant at its extraordinary general meeting held on 22 June 1992. The material parts of the minutes of that meeting read as follows:

SARJANA SENDIRIAN BERHAD
(Incorporated in Malaysia)

MINUTES OF EXTRAORDINARY GENERAL MEETING

Date & Time:	22nd June 1992 at 10 a.m.
Place:	26, Jalan Laksamana, 75000 Melaka
Present:	Datuk Tan Leng Teck – Chairman Madam Tan Guat Ngo Madam Tan Bock Chuan
In Attendance:	Mr Loh Sze Kiong) Madam Tan Guat Ngo) Secretaries

1) **CHAIRMAN**
Datuk Tan Leng Teck was elected to chair the Meeting.

2) **NOTICE**
The Notice convening the meeting was tabled and read by the Chairman.

3) **ISSUED AND PAID-UP CAPITAL**
The Chairman informed the meeting that in conjunction with the expansionary programme of the Company, it was agreed that the Company should

increase its issued and paid up capital from 5,700 Ordinary Shares of $1 each fully paid to 1,005,700 Ordinary Shares of $1 each fully paid by the additional allotment of 1,000,000 Ordinary Shares of $1.00 each fully paid in the capital of the company. Accordingly, the following Ordinary Resolution was put to vote and was duly approved as follows:

4) **ALLOTMENT OF SHARES**
RESOLVED THAT the application for 1,000,000 Ordinary Shares of $1 each fully paid in the Company be and is hereby approved and alloted to the undermentioned Company:

Name	**No. of shares**
PASTI HASIL SDN BHD	1,000,000 Ordinary Shares of $1 each fully paid.

FURTHER RESOLVED THAT the Secretary be authorised to issue Share Certificates to the above Company, sign same with any one Director, and to use and affix the Common Seal thereon.

In cross examination the plaintiff said that he chaired the meeting that passed the resolution and that the purpose of the sale of the shares ".... was for the expansion of 1st Deft." Learned Counsel for the defendants also referred the plaintiff to p. 24 of Exh. B which contains a copy of the resolution forwarded to the Registrar of Companies. He was also referred to the Return of Allotment of Shares at p. 25 of Exh. B. The plaintiff agreed that these documents show that the shares were fully paid up before 23 June 1992.

Loh Sze Kiong, the secretary of the 1st defendant, said in his evidence:

> The shares were alloted on 22 June 1992 for 1 million shares at $1 each. With regard to the manner of payment for these shares I relied on a letter dated 22 June 1992 from M/s. Tan & Co (Exh. P4) and an enclosed photostat copy of a bank draft for a sum of $3.3m. Exh. P4 identified. There was no other payment made for the allotment of these shares. The persons incharge of the 1st defendant at that time were PW1 and I.

At the close of the case for the plaintiffs the defendants elected not to call any evidence. The issues for determination as agreed by the parties are as follows:

1. Whether the plaintiff as a shareholder of the 1st defendant has the capacity in law to ground a claim against the 1st and 2nd defendants as pleaded based on the alleged contravention of s. 67 when the aforesaid section affords protection to the 1st defendant and no one else.

2. Whether the 1st defendant has directly or indirectly given financial assistance to the 2nd defendant for the purpose of the latter's subscription of one million ordinary shares in the latter in contravention of s. 67(1).

3. Whether, even if the answer to the first question is in the affirmative, the issue of the one million ordinary shares in the 1st defendant to the 2nd defendant was null and void.

4. Whether, if the said issue of the said shares was null and void the defendants have made out a case for the validation of the said issue of the said shares by the Court under s. 63 of the Companies Act 1965.

In his submission learned Counsel for the plaintiff contended that out of the payment of RM3.3 million RM1 million was used to increase the paid up capital of the 1st defendant. He said that this amounted to the 1st defendant providing financial assistance to the 2nd defendant to subscribe for the shares in breach of s. 67(1) thereby rendering the allotment of the shares null and void. In support of this he relied on *Mookapillai & Anor. v Liquidator, Sri Saringgit Sdn. Bhd. & Ors.* [1981] 2 MLJ 114 and *Kidurong Land Sdn. Bhd. & Anor. v. Lim Gaik Hua & Co.* [1990] 1 MLJ 485 both being judgments of the Federal Court. He referred to Exh. P4 to show that the RM1 million was in fact used for the purpose as claimed by the plaintiff. He added that the fact that the RM1 million was not physically paid was irrelevant. The fact remains that the sum of RM3.3 million belonged to the 1st defendant and that out of this sum RM1 million was to be treated as payment for the shares. He added that the entries in the Return of Allotment of Shares where it is stated that:

(a) the number of shares alloted to the 2nd defendant was one million ordinary shares;

(b) the nominal amount of each share was RM1; and

(c) the amount paid on each share was RM1

cannot be contradicted pursuant to ss. 91 and 92 of the Evidence Act 1950 to show that the shares were alloted to the 2nd defendant on a fully paid up basis and relied on *Ah Mee v. PP* [1967] 1 MLJ 220 in support of this contention. In commenting on the defence as pleaded in paras. 11 and 16 of the statement of defence that the RM1 million was used to help the 1st defendant to increase its paid up capital he said that this is an admission that the RM1 million was used to pay for the shares because a company can only increase its paid up capital by the issue of shares.

In his submission learned Counsel for the defendants contended that the plaintiff has no *locus standi* to maintain the action as only the 1st defendant may do so in accordance with s. 67(6). He also said that there is no evidence to show that the RM1 million was used to finance the purchase of the one million shares. He contended, in the alternative, that the financing of the shares by the 1st defendant was done in good faith and relied on *Intraco Ltd. v. Multi Pak Singapore Pte. Ltd.* [1995] 1 SLR 313. He further submitted that if the Court finds that there is a violation of s. 67(1) then the allotment of the shares ought to be validated under s. 63 of the Companies Act 1965. He also said that in order to take the transaction out of the ambit of s. 67 the 2nd defendant could be ordered to pay into the account of the 1st defendant the sum of RM1 million. He added that in any event the Court should be less ready to render the allotment of shares illegal in the light of the judgment of the Federal Court in *Co-operative Central Bank Ltd. (In receivership) v. Feyen Development Sdn. Bhd.* [1995] 3 MLJ 313. He then said that the plaintiff, being an advocate and solicitor himself, ought to be familiar with the provisions of s. 67. It was the plaintiff who, whilst being in control of the 1st defendant, chaired all the relevant meetings for the allocation of the shares without being concerned about the violation of s. 67. Thus, this action amounts to an abuse of process of the Court. Bearing in mind the submissions made and the agreed issues for determination I shall consider the case under the following heads:

(a) The Plaintiff's Reliance On ss. 91 And 92 Of The Evidence Act 1950 (Section 91 And Section 92 Respectively)

The sections read as follows:

Section 91

> When the terms of a contract or of a grant or of any other disposition of property have been reduced by or by consent of the parties to the form of a document, and in all cases in which any matter is required by law to be reduced to the form of a document, no evidence shall be given in proof of the terms of the contract, grant or other disposition of property or of the matter except the document itself, or secondary evidence of its contents in cases in which secondary evidence is admissible under the provisions hereinbefore contained.

Section 92

> When the terms of any such contract, grant or other disposition of property, or any matter required by law to be reduced to the form of a document, have been proved according to s. 91, no evidence of any oral agreement or statement shall be admitted as between the parties to any such instrument or their representatives in interest for the purpose of contradicting, varying, adding to, or subtracting from its terms:

Provided that:

(a) any fact may be proved which would invalidate any document or which would entitle any person to any decree or order relating thereto, such as fraud, intimidation, illegality, want of due execution, want of capacity in any contracting party, the fact that it is wrongly dated, want or failure of consideration, or mistake in fact or law;

(b) the existence of any separate oral agreement, as to any matter on which a document is silent and which is not inconsistent with its terms, may be proved, and in considering whether or not this proviso applies, the Court shall have regard to the degree of formality of the document;

(c) the existence of any separate oral agreement constituting a condition precedent to the attaching of any obligation under any such contract, grant or disposition of property, may be proved;

(d) the existence of any distinct subsequent oral agreement, to rescind or modify any such contract, grant or disposition of property, may be proved except in cases in which the contract, grant or disposition of property is by law required to be in writing, or has been registered according to the law in force for the time being as to the registration of documents;

(e) any usage or custom by which incidents not expressly mentioned in any contract are usually annexed to contracts of that description may be proved if the annexing of any such incident would not be repugnant to or inconsistent with the express terms of the contract; and

(f) any fact may be proved which shows in what manner the language of a document is related to existing facts.

It was the contention of learned Counsel for the plaintiff that the Return of Allotment of Shares, being a statutory requirement, fell within the ambit of these sections and that the entries contained therein to show that one million ordinary shares at RM1 each was alloted to the 1st defendant for which the amount was paid cannot be contradicted to show that the shares were alloted on a fully paid up basis. This demands a deliberation of the scope of the two sections in order to determine their applicability to the document in question.

The best evidence about the contents of a document is the document itself and it is the production of the document that is required by s. 91 in proof of its contents. In a sense, the rule enunciated by s. 91 can be said to be an exclusive rule inasmuch as it excludes the admission of oral evidence for proving the contents of the document except in cases where secondary evidence is allowed to be led under the relevant provisions of the Evidence Act 1950. Section 92 applies to cases where the terms of contracts, grants or other dispositions of property have been proved by the production of the relevant

documents themselves under s. 91; in other words, it is after the document has been produced to prove its terms under s. 91 that the provisions of s. 92 come into operation to exclude evidence of any oral agreement or statement, for the purpose of contradicting, varying, adding to or subtracting from its terms. Sections 91 and 92 in effect supplement each other. Section 91 would be frustrated without the aid of s. 92 and s. 92 would be inoperative without the aid of s. 91. Since s. 92 excludes the admission of oral evidence for the purpose of contradicting, varying, adding to or subtracting from the terms of the document properly proved under s. 91, it may be said that it makes the proof of the document conclusive of its contents. Like s. 91, s. 92 also can be said to be based on the best evidence rule. See *Bai Hira Devi v. Official Assignee AIR* [1958] SC 448. Having dealt with the fundamental features of the two sections I shall first consider the extent to which the contents of documents falling within the category of documents to which s. 92 applies can be contradicted.

In my view the statement of the law in *Ah Mee v. PP* [1967] 1 MLJ 220 that a document falling within s. 92 should remain uncontradicted must be understood in its proper perspective. What was stated in that judgment is only the general rule contained in s. 92 which itself qualifies the rule by specifying exceptions to it as illustrated by the six provisoes. In this regard I refer to *Keng Huat Film Co. Sdn. Bhd. v. Makhanlall (Properties) Pte. Ltd.* [1984] 1 MLJ 243 where Mohamed Azmi FJ in delivering the judgment of the Federal Court said at p. 247:

> *Section 91 provides that the contents of a document must be proved by the document itself, and s. 92 provides that* ***subject to certain provisoes,*** *no evidence of any oral agreement or statement shall be admitted for the purpose of contradicting, varying, adding to, or subtracting from its terms. (Emphasis added).*

In *Eushun Properties Sdn. Bhd. v. MBF Finance Bhd.* [1992] 2 MLJ 137 Mohamed Yusoff SCJ in speaking for the Supreme Court said at p. 141 that s. 92 "... does not absolutely bar the defendants from adducing evidence to vary the terms of formal agreement between the parties." It is therefore incorrect to say that s. 92 prohibits a document coming within its ambit from contradiction absolutely. The operation of s. 92 is exemplified by the Federal Court cases of *Ah Mee* itself and *Herchun Singh and Ors. v. PP* [1969] 2 MLJ 209, though, as I will attempt to show in a later part of this judgment, the question of whether the document involved in both these cases, that is to say, a police report, comes within the meaning of s. 92 is another matter of monumental significance. In *Ah Mee* the appellant had been convicted of rape. One of the grounds of appeal was the reception of inadmissible evidence in a

material particular. The complainant had clearly given the number of the appellant's car as M7354 in her police report. In truth it was M6049 whereas M7354 belonged to a motorised grass cutter which had become defunct since 1957. The trial Judge, nevertheless, accepted her explanation of an honest mistake, that she was uncertain about it when the police requested her to give the number of the vehicle involved. On this issue Ong Hock Thye FJ (as he then was) in delivering the judgment of the Court said at p. 223:

> Section 91 of the Evidence Ordinance applies equally to criminal trials, no less than to civil proceedings, and it categorically states that 'in all cases in which any matter is required by law to be reduced to the form of a document, no evidence shall be given in proof of the terms ... of such matter except the document itself.' The report was information relating to the commission of an offence which 'shall be reduced to writing' pursuant to s. 107 of the Criminal Procedure Code (Cap 6), and s. 92 of the Evidence Ordinance goes on to exclude all parole evidence seeking to contradict or vary what was set out in writing. Hence it should have remained uncontradicted, on the prosecution evidence, that whoever might have raped the complainant he was certainly not this appellant, as owner of the vehicle M7354. Not to put too fine a point on it, one might have thought an inadvertant transposition of one or two digits quite possible and probable due to a genuine lapse of memory, but for the complainant to suggest that she could honestly have believed that '7354' bears any relation to '6049' passes all understanding.

In *Herchun Singh* it was argued that the police report in that case taken down by a police constable contained contradictions. Ong Hock Thye CJ (Malaya) accepted the finding of fact of the trial Judge that the report which was taken down contained errors and omissions for which the constable alone was responsible. His Lordship distinguished *Herchun Singh* from *Ah Mee* on the basis that in the latter case the complainant clearly gave the number of her assailant's car as M6049, a contradiction for which she and no other person could have been held responsible. At first sight it may appear that both the judgments are in conflict with each other. However, that is not so. It must be noted that in Ah Mee the learned trial Judge accepted the explanation of an honest mistake on the part of the complainant that she was uncertain about the number of the car when the police requested her to give the number of the vehicle involved but this explanation was rejected by the Federal Court on the ground that it "... passes all understanding". As I said earlier the explanation offered in Herchun Singh was accepted both by the High Court and Federal Court. Thus, ultimately the issue in the two cases was the credibility of the explanation and not its admissibility which are separate and distinct matters. This accords with the law enunciated in s. 92 read with proviso (a) of the section.

The next matter for consideration is whether the applicability of s. 92 to, *inter alia*, any matter required by law to be reduced to the form of a document is confined in its operation to bilateral and dispositive instruments only or also extends to unilateral and non dispositive documents like the police report in *Ah Mee*. For this purpose the phrase "... and in all cases in which any matter is required by law to be reduced to the form of a document ..." in s. 91 and the equivalent phrase "... or any matter required by law to be reduced to the form of a document ..." in s. 92 are relevant. Both the phrases, read on their own, convey the same meaning. In interpreting the phrases as used in both the sections I am guided by s. 68 of the Interpretation Acts 1948 and 1967 which reads as follows:

> Every section of an Act of Parliament, Ordinance or Enactment shall have effect as a substantive enactment without introductory words.

In this regard I also refer to *Statutory Interpretation* by Francis Bennion 2nd Edn. where the learned author says at p. 490:

> It has been said by Judges that the division of an Act into sections is arbitrary and ought not to be treated as furnishing a guide to its construction. This sweeping generalisation might have contained some truth when it was uttered, in the days of disorganised composition. With the precision drafting of today, the position is otherwise. Drafters take great care to design a section so that it deals with a single point; and the way the sections are organised and arranged is to be taken as a guide to legislative intention.

It is therefore manifestly patent that words and phrases appearing in a section must be interpreted in accordance with the context in which they are employed in the section. Thus the two phrases, though conveying the same meaning when read on their own, must be interpreted in the context in which they appear in both the sections.

My first observation is that the words "when the terms ... have been proved according to s. 91 ..." appearing in s. 92 do not in any way imply that the category of documents referred to in both the sections are the same. The meaning of these words has been clearly explained by *Sarkar on Evidence* 14th Edn. at p. 1201 with regard to the equivalent words in the Indian Evidence Act in this way:

> **Have Been Proved According to the Last Section** – S92 comes into operation when the written instruments referred to in the section, have been proved under s. 91, that is, either by the production of the document itself, or by the production of secondary evidence of it, where secondary evidence is admissible under s. 65. It is then that this section comes into play.

My next observation is that the phrase as it appears in s. 91 is not qualified in its operation by other words in the section. Thus it means what it says. It applies to any matter which is required by law to be reduced to the form of a document. Consequently there can be absolutely no dispute that it applies to both bilateral and unilateral and dispositive and non dispositive documents. On the other hand s. 92, having described the documents to which it applies including the documents encapsulated by the phrase in question, goes on to say, in its operative part, that "... no evidence of any oral agreement or statement shall be admitted **as between the parties to any such instrument or their representatives in interest** ...." (emphasis added). Thus the phrase, as it appears in s. 92, is explicitly qualified by the words emphasised. The words "... as between the parties to any such instrument or their representatives in interest ...." clearly and crisply connote in crystalline terms that the documents contemplated by s. 92 are bilateral and dispositive in nature. On the determining effect of these words I can do no better than refer to Woodroffe & Amir Ali's *Law of Evidence* Vol. III 15th Edn. where the learned authors say at p. 71:

> The words 'contract, grant or other disposition of property' in this section, refer to the similar words in s. 91, *viz.*, 'when the terms of a contract or of a grant or of any other disposition' of property have been reduced to the form of a document'; that is, cases where such reduction is the act of the parties. The words "or any matter required by law to be reduced to the form of a document" in this section refer to the similar words in s. 91. But a matter so required to be reduced to the form of a document may be either a contract, grant or other disposition of property, such as a decree (*Venkatalingarna v. Rao Muni Venkatodri* ILR 50 Mad 897) or it may be a fact, such as the evidence of a witness, the disposition regarding which is there, neither a contract nor a grant or other disposition of property. The present section, in this respect, unlike the last, deals only with those matters, which the law requires to be reduced to the form of a document' and which are contracts, grants or other dispositions of property. This is indicated by the words 'as between the parties to any such instrument or their representatives-in-interest,' which are only applicable in the case of documents which are of a dispositive character. The subject matters of this section, therefore, are contracts, grants and other dispositions of property, whether embodied in documents by consent of parties or by requirements of law, and therefore the words 'no evidence of any oral agreement or statement shall be admitted as between the parties to any such instrument' have reference both to the words 'contract, grant or other disposition of property', in the beginning of the section and to the words 'any matter required by law etc', which follow them (*Debendra Narain v. Somendra Mohan AIR* [1914] Cal 697; *Ananda Priya v. Bijay Krishna AIR* [1926] Cal 643; *Gajanand v. Hari Bux AIR* [1943] Cal 634; *Ganga Dihal Rai v. Ram Oudly AIR* [1929] All 79; *Adappa Papamma v. Darbha Vankayya AIR* [1935] Mad 860; *Kalyanji Dhana v. Dharamsi & Co. AIR* [1935] Bom 303; *Udham Singh v. Atma Singh AIR* [1941] Lah 149; *Satyabadi Sahu v. Mani Sahu AIR* [1936] Pat 619).

The same view is expressed in *Sarkar on Evidence* 14th Edn. at pp. 1195 1196 in the following terms:

> The words 'contract, grant or other disposition of property' as well as the words 'any matter required by law to be reduced to the form of a document in s. 92 are also to be found in s. 91. The words 'contract, or of a grant, or of any other disposition of property, have been reduced to the form of a document' in s. 91 refer to transactions recorded in writing by agreement of parties. The words 'any matter required by law to be reduced to the form of a document' in s. 91 explain themselves. Both phrases apply to unilateral as well as bilateral documents as s. 91 is not restricted to the parties to an instrument. Further, s. 91 applies to both dispositive and non dispositive documents.
>
> Taken apart from both the sections and their contexts, the two expressions have the same meaning. But the words 'as between the parties to any such instruments or their representatives in interest' which appear in s. 92 only, indicate that their meaning is not the same in both sections and the documents referred to in both sections are not identical. It should first be noted that the absence of the words 'as between the parties etc.' in s. 91 shows that the section applies to both unilateral documents (eg. wills, powers of attorney, deposition of witness etc.) and bilateral documents (eg. contract, grants etc. between two or more parties). The rule is s. 91 therefore applies to strangers, ie, person who are not parties to the document. The words 'as between parties etc' and the reference to 'separate oral agreement' in s. 92 seem to point out that the section does not apply to unilateral documents ...
>
> The words 'as between the parties ... interest' are to be read along with the words 'contract, grant or other disposition of property' and also along with the words 'or any other matter ... of a document'. The words as 'between the parties to any such instrument' further points out that s. 92 applies only to dispositive documents, ie, documents by which rights are, disposed of, eg, 'contract, grant or other disposition of property.' These words naturally apply to dispositive documents between contracting parties or parties to whom any property is transferred. This view has been accepted in a case where it has been held that this section refers to only what are known as 'dispositive documents' and the words 'any other matter required by law to be reduced to the form of a document must be read in that sense. A decree does not therefore come within the purview of s. 92 (*Anandapriya v. Bijay* 91 1C 105; A 1926 (643); see also *Debendra v. Saurendra* 241C 391; *Adape v. Darbha* 58 MFB).

Sections 91 and 92 were exhaustively dealt with by the Indian Supreme Court in *Bai Hira Devi v. Official Assignee,* Bombay AIR [1958] SC 448 and Gajendrajadkar J in writing for the Court said at p. 450:

The two sections, however, differ in some material particulars. Section 91 applies to all documents, whether they purport to dispose of rights or not, whereas s. 92 applies to documents which can be described as dispositive. Section 91 applies to documents which are both bilateral and unilateral, unlike s. 92 the application of which is confined only to bilateral documents. Section 91 lays down the rule of universal application and is not confined to the executant or executants of the documents. Section 92, on the other hand applies only between the parties to the instrument or their representatives in interest.

As a matter of fact the issue that I am addressing now has already been decided by our Federal Court. In *PP v. Datuk Haji Harun bin Idris & Ors.* [1977] 1 MLJ 180 Abdoolcader J (as he then was) in construing s. 92 to be applicable to only bilateral and dispositive documents said at p. 183:

> I should also at this stage refer to the submission of Counsel for the second accused that no evidence which would in any way contradict, vary, add to or subtract from the minutes of the board meeting of the bank is admissible by virtue of the provisions of ss. 91 and 92 of the Evidence Act 1950, notwithstanding profuse examination and cross examination on the minutes throughout these proceedings. This submission on a point of law should perhaps be considered and disposed of before I come to deal with the evidence and is, as I understand it, premised on the provisions of by law 50 which prescribes that all matters deliberated or decided upon at a board and general meeting shall be recorded in a minute book and signed by the secretary and the chairman on confirmation of the minutes. Counsel for the second accused argues that this is therefore a matter required by law to be reduced to the form of a document and accordingly comes within the provisions of ss. 91 and 92 of the Evidence Act. I cannot accept that contention for two reasons. Firstly, it is clear from the terms of by-law 50 that what should be recorded in the minute book are only matters deliberated or decided upon, and the minutes cannot therefore be fully exhaustive of everything that transpires at such meetings. *And secondly, in the context of the wording in s. 92 of the Evidence Act, the clause 'any matter required by law to be reduced to the form of a document' would appear to refer to bilateral instruments and dispositive documents only, such as contracts, grants or other disposition of property which the law requires to be reduced to writing, and not to everything and all matters which the law requires to be reduced into a document, as, for instance, the depositions of witnesses which, though required by law to be reduced to the form of a document, would not come within this section and oral evidence is therefore admissible to contradict such deposition.* (Emphasis added).

The Federal Court agreed with the views expressed by Abdoolcader J (as he then was) (see [1978] 1 MLJ 240 at p. 247) which therefore become the views of the Federal Court as well. In this regard I also refer to *Director General of Inland Revenue v. Ee Sim Sai* [1977] 2 MLJ 323 where Ibrahim J (as he then was) in considering whether s. 92 is applicable to Form 14A as prescribed by the National Land Code said at p. 33:

> After analysing and comparing the two sections I am of the view that as Form 14A is dispositive in character, s. 92 would operate in this case. *Sarkar on Evidence*, 12th Edn., at p. 774, in distinguishing the two sections, states, among other things, that s. 91 refers to all documents whether dispositive or non dispositive whereas s. 92 deals with dispositive documents only and that the two sections complement and supplement one another.

Thus the conclusion of Abdoolcader J in *PP v. Datuk Haji Harun bin Hj. Idris* [1977] 1 MLJ 180 that "... in the context of the wording of s. 92 of the Evidence Act, the clause 'any matter required by law to be reduced to the form of a document' would appear to refer to bilateral instruments and dispositive documents only ....", which was accepted by the Federal Court, cannot be assailed. It therefore follows that s. 92 does not apply to all the documents that come within s. 91. This reasoning, however, is in clear conflict with *Ah Mee*, another Federal Court judgment, where the document considered in the context of s. 92 was a police report – a document which cannot fall within the ambit of s. 92 as it is unilateral and non-dispositive. However, it must be observed that in *Ah Mee* the Federal Court after having meticulously explained the reasons for holding that a police report came within s. 91 then proceeded to assume automatically that it is caught by the prohibition contained in s. 92. (See also *Inspector General of Police & Anor. v. Alan Noor bin Kamat* [1988] 1 MLJ 260). It was said as long ago as 1661 that "precedents *sub silentio* and without argument are of no moment" (see *R v. Warner* 1 Keb. 66). In this regard *Precedents in English Law* by Cross and Harris 4th Edn. says at pp. 158 159:

> It seems always to have been accepted that if a proposition of law, though implicit in a decision, was never expressly stated either in argument or in the judgment, the decision constitutes no binding authority for it, whether on the ground that there is here an exception to *stare decisis*, or for the reason that such proposition is not truly part of the *ratio*. The last fifteen years have seen a tendency to regard decisions as not binding at any level of the judicial hierarchy as to propositions expressly affirmed by them if, owing to the absence of any argument on the point, it can be inferred that the deciding Court merely assumed their correctness. In this light, decisions without argument must be viewed as a general exception to *stare decisis*.

In *Baker v. The Queen* [1975] AC 774 the Privy Council held that, although inferior Courts were bound by decisions of the Board even if they were *per incuriam*, they were not bound by propositions of law incorporated into the *ratio decidendi* which had merely been assumed to be correct without argument. The sequel is that, and with the utmost respect, the decision in *Ah Mee* on the applicability of s. 92 to unilateral documents loses its efficacy as a binding precedent. In any event where the *rationes decidendi* of two decisions of a higher Court of equal jurisdiction conflict with one another and

the later decision does not purport to over rule the earlier an inferior Court may choose which *ratio decidendi* it will follow and in doing so it may act on its own opinion as to which is the more convincing (see *Baker v. The Queen* [1975] AC 774). I am therefore compelled to conclude that the proper interpretation to be accorded to s. 92 is the ratiocination of Abdoolcader J (as he then was) in *PP v. Datuk Haji Harun bin Idris & Ors.* [1977] 1 MLJ 180 which was accepted by the Federal Court as it is more convincing. The corollary is that the prohibition contained in s. 92 applies only to bilateral and dispositive documents. The section has no application to unilateral and non dispositive documents such as police reports and, in consequences thereof, oral evidence is admissible to contradict them. I interpolate to add, and again with the utmost respect, that the treatment of certain unilateral documents as having been hit by s. 92 in cases such as *PP v. Pavone* [1986] 1 MLJ 72, *PP v. Lee Eng Kooi* [1993] 2 MLJ 322, *PP v. Krishnan a/l Letchumanan & Anor*. [1995] 2 MLJ 690 and *PP v. Sulaiman bin Mohamed Noor* [1996] 1 MLJ 196 was done so as a result of no argument having been advanced to the Court for deliberation in the line that I have discussed.

It is therefore my view that the Return of Allotment of Shares being a unilateral document can be contradicted if the facts warrant it.

(b) Whether Financial Assistance Was Provided By The 1st Defendant Within The Meaning of s. 67

Section 67 reads as follows:

> (1) Except as is otherwise expressly provided by this Act no company shall give, whether directly or indirectly and whether by means of a loan guarantee or the provision of security or otherwise, any financial assistance for the purpose of or in connection with a purchase or subscription made or to be made by any person of or for any shares in the company or, where the company is a subsidiary, in its holding company or in any way purchase deal in or lend money on its own shares.
>
> (2) Nothing in sub-s. (1) shall prohibit:
>
> (a) where the lending of money is part of the ordinary business of a company, the lending of money by the company in the ordinary course of its business;
>
> (b) the provision by a company, in accordance with any scheme for the time being in force, of money for the purchase of or subscription for fully paid shares in the company or its holding company, being a purchase or subscription by trustees of or for shares to be held by or for the benefit of employees of the company, or a subsidiary of the company including any director holding a salaried employment or office in the company or a subsidiary of the company, or

(c) the giving of financial assistance by a company to persons, other than directors, bona fide in the employment of the company or of a subsidiary of the company with a view to enabling those persons to purchase fully paid shares in the company or its holding company to be held by themselves by way of beneficial ownership.

(3) If there is any contravention of this section, the company is, notwithstanding s. 369, not guilty of an offence but each officer who is in default shall be guilty of an offence against this Act.
Penalty: Imprisonment for five years or one hundred thousand ringgit.

(4) Where a person is convicted of an offence under sub-s. (3) and the Court, by which he is convicted is satisfied that the company or another person has suffered loss or damage as a result of the contravention that constituted the offence, the Court may, in addition to imposing a penalty under that subsection, order the convicted person to pay compensation to the company or the person, as the case may be, of such amount as the Court specifies, and any such order may be enforced as if it were a judgment of the Court.

(5) The power of a Court under s. 354 to relieve a person to whom that section applies, wholly or partly and on such terms as the Court thinks fit, from a liability referred to in that section, extends to relieving a person against whom an order may be made under sub-s. (4) of this section from the liability to have such an order made against him.

(6) Nothing in this section shall operate to prevent the company (or any person) from recovering the amount of any loan made in contravention of this section or any amount for which it becomes liable (either) on account of any financial assistance given (or under any guarantee entered into or in respect of any security provided,) in contravention of this section.

(The words in brackets in s. 67(6) are not relevant for the purposes of this case as they were introduced by Act A836 after the cause of action arose in this case).

Section 67(1) reveals that a company is prohibited from:

(i) giving financial assistance for the acquisition of its shares or shares in its holding company;

(ii) purchasing or dealing in its own shares; and

(iii) lending money on the security of its own shares.

The object of the section is to ensure that the assets of a company are preserved and not returned to the members directly or indirectly. In this respect Jessel MR said in *Re Exchange Banking Co. (Flitcroft's Case)* [1882] 21 Ch. D 519 at pp. 533 534:

> The creditor has no debtor but that impalpable thing, the corporation, which has no property except the assets of the business. The creditor, therefore, I may say, gives credit to that capital, gives credit to the company on the faith of the representation that the capital shall be applied only for the purposes of the business and he has therefore a right to say that the corporation shall keep its capital and not return it to the shareholders.

Thus if there is a contravention of s. 67(1) the company does not commit an offence but each officer of the company who is in default is guilty of an offence pursuant to s. 67(3). Section 67(6) provides remedies for the company where there is a contravention of s. 67(1). The object of this provision is to preserve the rights of the company in the event of any contravention of the section. Of the prohibitions contained in s. 67(1) what is relevant for the purposes of the case at bar is the giving of financial assistance by a company in respect of a subscription made for its shares. "Subscription" for shares is the process by which a person becomes a shareholder of a company through allotment and issue of shares to him while a "purchase" occurs when a person obtains a transfer of shares from a shareholder for a consideration. Section 67(1) states that financial assistance for an acquisition of shares may be provided directly or indirectly by means of a loan guarantee or the provision of security "or otherwise". The words "or otherwise" are very wide and mean "in any other way". In this regard I refer to *EH Dey Pty. Ltd. (In Liquidation) v. Dey* [1966] VR 464 where Mclnerney J in referring to the words in the Australian equivalent of s. 67(1) said at p. 469:

> The words 'or otherwise' are, however, very wide. The width of apparently general words is sometimes cut down by the *ejusdem generis* rule. In the present case, however, the words 'loan', 'guarantee' and 'the provision of security' do not constitute a genus and there is, therefore, no question of cutting down the width of the meaning of the words 'or otherwise' by reference to the *ejusdem generis* rule. I construe the words as meaning 'in any other way'.

The prohibition, therefore, is on the company giving, in any way, any financial assistance for the purpose of or in connection with a purchase or subscription made or to be made by any person for any shares in the company. On the question of the person to whom the financial assistance should have been given Mclnerney J said in the *Dey* decision at p. 470:

> In my view, the prohibition is not confined to financial assistance to the purchaser: it is directed to financial assistance to whomsoever given, provided that it be for the purchase of ... shares or in connection with a purchase of shares.

The essence of the question whether a company has impugned s. 67(1) is whether it has diminished its financial resources, including future resources, in connection with the sale and purchase of its shares and the matter is not to be determined by considering only what is done by the parties to the transaction. The words "financial assistance" are words of a commercial rather than a conveyancing kind and the form of the obligation or transaction will not be conclusive (see *Burton v. Palmer* [1980] 2 NSWLR 878). Accordingly if the transaction is a *bona fide* commercial transaction entered into in good faith, the fact that the proceeds of the transaction are used to assist in acquiring the company's shares will not make the transaction illegal (see *Co-operative Central Bank Ltd. (In receivership) v. Feyen Development Sdn. Bhd.* [1995] 3 MLJ 313; *Intraco Ltd. v. Multi Pak Singapore Pte. Ltd.* [1995] 1 SLR 313; *Belmont Finance Corp. v. Williams Furniture Ltd. (No. 2)* [1980] 1 All ER 393 and *Charterhouse Investment Trust Ltd. & Ors. v. Tempest Diesels Ltd.* [1989] B CLC1). Thus the giving of financial assistance means making a provision in money or money's worth to which a shareholder was not already entitled in his capacity as a shareholder (see *Rossfield Group of Operations Pty. Ltd. v. Austral Group Ltd.* [1981] Qd R 279). Even where a company provides assistance by way of a gift it amounts to financial assistance (see *Re VAM Holdings* [1942] 1 All ER 224).

It is the contention of learned Counsel for the defendants that the plaintiff has led no evidence to show that the RM1 million was used to finance the purchase of the one million shares. In my view cls. 2.12 and 4.2(a) of the agreement entered into between the 1st and 2nd defendants which I have reproduced in an earlier part of this judgment clearly provide that out of the sums becoming payable under that agreement RM1 million shall be paid to the 1st defendant in respect of the shares to be subscribed by the 2nd defendant. Exhibit P4 which was admitted by consent shows that out of the RM3.3 million received as part payment for the purchase of the land from the 2nd defendant RM1 million is in respect of the shares alloted to the 2nd defendant. In his evidence on this exhibit the plaintiff said that the $1 million was to be treated as payment for the allotment of shares to the 2nd defendant. I must point out that this sum forms part of the purchase price which the 2nd defendant was obliged to pay the 1st defendant in respect of the purchase of the land from the latter. Thus the transaction amounted to no more than the 2nd defendant being alloted shares in the 1st defendant at no cost arising from the sale transaction between them. The transaction was used as a vehicle to

discharge the obligation of the 2nd defendant to the 1st defendant with regard to the payment arising from the allotment of the shares. The resultant matter for determination is whether this amounts to "financial assistance" within the meaning of s. 67(1) in the light of the law that I have adverted to. In *EH Dey Pty. Ltd. v. Dey* [1966] VR 464 it was held that the company had given financial assistance in connection with the purchase of shares by agreeing to treat the defendant as having paid a certain sum which he at that time owed the company. That precisely is the position in the case before me. It is therefore my view that the 1st defendant assisted the 2nd defendant to acquire the one million shares financially as the transaction that they entered into resulted in the 2nd defendant obtaining the shares without any payment by reason of RM1 million accruing from the sale of the land being treated as payment for the shares. This has resulted in the 1st defendant's assets being diminished in value. Thus the statement in the Resolution of the 1st defendant that the shares had been fully paid and the statement in the Return of Allotment of Shares that the value of the shares had been paid, in actual fact, refer to the treatment of the sum due as having been paid. Be that as it may, the fact that the 1st defendant provided financial assistance to the 2nd defendant to acquire the shares will not amount to financial assistance within the meaning of s. 67(1) if the transaction was a *bona fide* commercial transaction entered into in good faith. The available evidence shows that the allotment of the one million shares was in line with the 1st defendant's programme for expansion. But that does not mean that the allotment of the shares to the 2nd defendant at no cost is a bona fide commercial transaction. As a matter of fact the subscription of shares in the 1st defendant by the 2nd defendant was not a commercial transaction as far as the 1st defendant was concerned. It was not a transaction whereby the 1st defendant acquired anything which it genuinely needed for its own purpose. On the other hand it was a transaction which facilitated the 2nd Defendant's acquisition of control of the 1st defendant for its own purpose. It was certainly not a transaction in the ordinary course of the 1st defendant's business. As Buckley LJ said in *Belmont Finance Corporation v. Williams Furniture Ltd. & Ors.* (No. 2) [1980] 1 All ER 393 in somewhat similar circumstances at p. 403:

> It was an exceptional and artificial transaction and not in any sense an ordinary commercial transaction entered into for its own sake in the commercial interests of Belmont (in this case the 1st defendant). It was part of a comparatively complex scheme for enabling Mr. Grosscurth and his associates to acquire Belmont (in this case the 1st defendant) at no cash cost to themselves, the purchase price being found not from their own funds or by realisation of any asset of their ... but out of Belmont's (in this case the 1st defendant's) own resources.

I therefore hold that the 1st defendant has provided financial assistance to the 2nd defendant for the subscription of the one million shares within the meaning of s. 67(1). The ensuing matter for deliberation is the legal effect of an agreement made in contravention of s. 67(1).

*(c) **The Validity Of The Transaction***

The answer to this issue brings into sharp focus s. 24 of the Contracts Act 1950 (s. 24) which, omitting parts not relevant, reads as follows:

> The consideration or object of an agreement is lawful unless
>
> (a) it is forbidden by a law;
>
> (b) it is of such a nature that, if permitted it would defeat any law;
>
> (e) the Court regards it as immoral, or opposed to public policy.
>
> In each of the above cases, the consideration of an agreement is said to be unlawful. Every agreement of which the object or consideration is unlawful is void.

Section 24 states signally that if an agreement is forbidden by law or prohibited by law or is of such a nature that it would defeat the law, that agreement is unlawful and void. I shall now consider whether an agreement entered into in contravention of s. 67(1) attracts s. 24 to render the agreement void in the light of the penalties provided in s. 67(3) and the unambiguous saving provision contained in s. 67(6) and having regard to the context and purpose of s. 67(1). In *Phoenix Insurance v. Adas* [1987] 2 All ER 152 the Court of Appeal was concerned with the question of illegality of certain insurance and reinsurance contracts which had been forbidden by statute. In dealing with this issue Kerr LJ said this:

> The next point is then that it is settled law that any contract which is prohibited by statute, either expressly or by implication, is illegal and void. The leading old authority is the judgment of the Court of Exchequer delivered by Parke B in *Cope v. Rowlands* [1836] 2 M & W 149; 150 ER 707. The relevant statutory provision prohibited any unauthorized person from 'acting as a broker' within the City of London. It was held that an otherwise valid brokerage contract made by an unauthorized person was illegal and void. Since the statute in that case did not contain any reference to contracts, the situation under the 1974 Act is a *fortiori*. Parke B said (2 M & W 149 at 157; 150 ER 707 at 710):
>
> It is perfectly settled that, where the contract which the plaintiff seeks to enforce, be it express or implied, is expressly or by implication forbidden by the common or statute law, no Court will lend its assistance to give it effect. It is equally clear that a contract is void if prohibited by a statute, though the statute inflicts a penalty only, because such a

> penalty implies a prohibition ... And it may be safely laid down, notwithstanding some *dicta* apparently to a contrary, that if the contract be rendered illegal, it can make no difference, in point of law, whether the statute which makes it so has in view the protection of the revenue, or any other object. The sole question is, whether the statute means to prohibit the contract?.

Later on in his judgment Kerr LJ referred to the judgment of the High Court of Australia in *Yango Pastoral Co. Pty. Ltd. v. First Chicago Australia Ltd.* [1978] 139 CLR 410 where Gibbs ACJ said:

> It is often said that a contract expressly or impliedly prohibited by statute is void and unenforceable. That statement is true as a general rule, but for complete accuracy it needs qualification, because it is possible for a statute in terms to prohibit a contract and yet to provide, expressly or impliedly, that the contract will be valid and enforceable. However, cases are likely to be rare in which a statute prohibits a contract but nevertheless reveals an intention that it shall be valid and enforceable, and in most cases it is sufficient to say, as has been said in many cases of authority, that the test is whether the contract is prohibited by the statute. Where a statute imposes a penalty upon the making or performance of a contract, it is a question of construction whether the statute intends to prohibit the contract in this sense, that is, to render it void and unenforceable, or whether it intends only that the penalty for which it provides shall be inflicted if the contract is made or performed.

Hashim Yeop A Sani CJ (Malaya) referred to these passages in *Chung Khiaw Bank Ltd. v. Hotel Rasa Sayang Sdn. Bhd. & Anor.* [1990] 1 MLJ 356 and said at p. 361:

> Thus, in our view, it may be stated as a general principle that a contract the making of which is prohibited by statute expressly or by implication, shall be void and unenforceable unless the statute itself saves the contract or there are contrary intentions which can reasonably be read from the language of the statute itself.

With regard to the effect of s. 67 (6) his Lordship said in the same case at p. 362:

> Therefore, the scope of s. 67(6) of the Act is confined only to the protection of the company and no one else. The words 'recovering the amount of any loan made in contravention of this section' in s. 67(6) can only mean any loan made by the company itself. The intention of the legislature is made clear in the explanatory statement to the Bill when it was presented to Parliament. The notes on s. 67 state that sub cl. (4) (now sub-cl. (6) 'is designed to preserve the rights of the company to recover loans made in contravention of the provisions of this clause'. The company there includes the subsidiaries. The explanatory notes went on to say that it was wrong to punish the company and the shareholders because of the default of the company's directors.

His Lordship went on to say that the transactions in that case were void under s. 24 after having refused an application to sever the securities and guarantees that were tied up to the loan transactions. In commenting on the *Chung Khiaw Bank* decision Lai Ching Sum in an article entitled *s. 67 of the Companies Act: A Hornet's Nest* [1992] 2 MLJ xi said at pp. xiv-xv:

> In *Wai Hin Tin Mining,* Chang Min Tat J (as he then was) held that the company could not recover a loan the purpose of which was to assist the defendant to purchase shares in the company. However, the learned Judge recognised that the civil consequences of a prohibited transaction would be different had there been a saving provision. The case was cited by Hashim Yeop A Sani CJ (Malaya) in *Chung Khiaw Bank* who noted that sub-s. (6) did not exist under the former provisions. Whilst his Lordship did specifically hold that a company would be able to recover loans made in contravention of s. 67 because of the subsection, his Lordship gave the subsection only a cursory consideration. This is despite the fact that his Lordship did recognise the possibility of the statute itself saving a transaction which is prohibited by the statute. ... If the company could enforce the prohibited transaction, it does not have to prove any breach of trust or breach of directors' duties to recover a loan which is prohibited by s. 67. If the purpose of sub-s. (6), as stated in *Chung Khiaw Bank*, is to protect the company, it is submitted that the company should be able to rely on the prohibited transaction to recover the loan. Furthermore, the company could also rely on s. 66 of the Contracts Act 1950 to seek an order for restitution of the amount loaned.

In my opinion the Supreme Court would have allowed the claim in that case if the claim had been only for the loan. It must be noted that s. 67(6) as it then stood protected only loans and nothing else and the claim in that case went beyond the ambit of the section. In *Co operative Central Bank Ltd. (In receivership) v. Feyen Development Sdn. Bhd.* [1995] 3 MLJ 313 the Federal Court was concerned with the question of whether there are any civil consequences which flow from a breach of s. 133 of the Companies Act 1965 (s. 133) upon the validity of two loan and charge transactions registered under the National Land Code 1965. The section reads as follows:

> (1) A company (other than an exempt private company) shall not make a loan to a director of the company or of a company which by virtue of s. 6 is deemed to be related to that company, or enter into any guarantee or provide any security in connection with a loan made to such a director by any other person but nothing in this section shall apply:
>
> (a) subject to sub-s. (2), to anything done to provide such a director with funds to meet expenditure incurred or to be incurred by him for the purposes of the company or for the purpose of enabling him properly to perform his duties as an officer of the company.

(b) to anything done to provide such a director who is engaged in the full time employment of the company or its holding company, as the case may be, with funds to meet expenditure incurred or to be incurred by him in purchasing or otherwise acquiring a home; or

(c) to any loan made to such a director who is engaged in the full time employment of the company or its holding company, as the case may be, where the company has at a general meeting approved of a scheme for the making of loans to employees of the company and the loan is in accordance with the scheme.

(4) Where a company contravenes this section any director who authorizes the making of any loan, the entering into of any guarantee or the providing of any security contrary to this section shall be guilty of an offence against this Act.
Penalty: Ten thousand Ringgit.

(5) Nothing in this section shall operate to prevent the company from recovering the amount of any loan or amount for which it becomes liable under any guarantee entered into or in respect of any security given contrary to this section.

Edgar Joseph Jr FCJ in writing for the Court in the *Feyen* decision, in a style deserving of the highest judicial accolades for making intrepid inroads into this area of the law, said that it is obvious that s. 133 does not in terms say that a guarantee entered into or any security given in contravention thereof is to be void, although this would result in the imposition of criminal liability on the official of the company concerned, and on the company itself, by virtue of the general penalty provisions contained in ss. 369 (1)(a) and 369(2) of the Companies Act 1965. His Lordship then added:

> Nevertheless, the general rule is that a contract, the making of which is prohibited by statute expressly or by implication, and which stipulates for penalties for those entering into it, shall be void and unenforceable, unless the statute itself saves the contract or there are contrary intentions which can reasonably be read from the language of the statute itself. (see *Holman v. Johnson* [1775] 98 ER 1120 at p. 1121; *Chung Khiaw Bank Ltd. v. Hotel Rasa Sayang Sdn. Bhd. & Anor.* [1990] 1 MLJ 356). However, the general rule is subject to exceptions and, at the end of the day, it is a question of construction of the particular statute.

His Lordship then cited the passage from *Yango* which I have reproduced in an earlier part of the judgment and referred to *Coramas Sdn. Bhd. v. Rakyat First Merchant Bankers Bhd.* [1994] 1 MLJ 369 where this passage was quoted with approval. His Lordship also referred to various authorities to show that Courts are now less ready to find a contract illegal or unenforceable simply

by reason of a statutory provision including *Yango* where Mason J (as he then was) said at p. 429:

> There is much to be said for the view that once a statutory penalty has been provided for an offence the rule of the common law in determining the legal consequences of commission of the offence is thereby diminished – see my judgment in *Jackson v. Harrison* [1978] 138 CLR 438 at p. 452. See also the suggestions that the principle cannot apply to all statutory offences (*Beresford v. Royal Insurance Co. Ltd.* in the Court of Appeal [1937] 2 KB 197 at p. 220, per Lord Wright; *Marles v. Philip Trant & Sons Ltd.* [1954] 1 QB 29 at p 37), per Denning LJ, and that it would be a curious thing if the offender is to be punished twice, civilly as well as criminally (*St John Shipping Corp. v. Joseph Rank Ltd.* [1957] 1 QB 267 at p. 292), per Devlin J. The main considerations from which the principle *ex turpi causa* arose can be seen in the reluctance of the Courts to be instrumental in offering an inducement to crime or removing a restraint to crime: *Beresford's case* [1938] AC 586 at pp 586, 599; *Amicable Society v. Bolland* (*Fauntleroy's Case)* [1830] 4 Bligh (NS) 194 at p. 211; 5 ER 70, at p. 76.
>
> However, in the present case Parliament has provided a penalty which is a measure of the deterrent which it intends to operate in respect of non compliance with s. 8. In this case it is not for the Court to hold that further consequences should flow, consequences which in financial terms could well far exceed the prescribed penalty and could even conceivably lead the plaintiff to insolvency with resultant loss to innocent lenders or investors.

His Lordship then referred to s. 67 and the differences between that section and the equivalent English and Australian provisions which do not have anything similar to s. 67(6). Reference was also made to *Che Wan Development Sdn. Bhd. v. Co-operative Central Bank Bhd.* [1990] 2 MLJ 365 where a third party charge, created in favour of a lender as security for an illegal loan granted by the lender to a director of the chargor company, was held by NH Chan J (as he then was) to be void and unenforceable for breach of the prohibition imposed by s. 133(1) relying heavily on an array of English and Australian decisions. His Lordship then referred to *Co-operative Central Bank Bhd. v. Sykt. Bukit Tinggi & Ors.* [1991] 1 CLJ 590 where Mohamed Dzaiddin J (as he then was) declined to follow *Che Wan* for the reason, *inter alia*, that NH Chan J (as he then was) had overlooked the effect of s. 133(5). His Lordship then added at p. 329:

> In our view, to admit the defence of illegality to a commercial transaction of the present sort, would defeat a purposive interpretation of sub-ss. (1) and (5) of s. 133 of the Act which is designed for the protection of the company, its shareholders and creditors from unlawful dissipation of its resources.

We would go further and say that to admit the defence of illegality to defeat the chargee society's application to enforce the charges by way of an order for sale, would, in the words of Mason J (as he then was) in *Yango Pastoral* (at p. 428), provide 'a windfall gain' to the chargor company and others in a similar position. In consequence, such a result would impose substantial hardship upon the chargee society for, in the words of Gibbs CJ in *Yango Pastoral* (at p. 415, para. 1):

> ... if a body corporate were unable to recover money that it has lent, it would be disabled from performing its own obligations, including those owed to its depositors. In those circumstances 'the avoidance of the contract would cause grave inconvenience and injury to innocent members of the public without furthering the object of the statute' (*Archbolds (Freightage) Ltd. v. S Spanglett Ltd.* [1961] 1 QB at p. 390; *Dalgaty and New Zealand Loan Ltd. v. VC Imeson Pty. Ltd.* [1963] 63 SR (NSW) 998 at p. 1004).

His Lordship concluded his enlightening judgment at p. 330 in this way:

> Fortunately, in our view, sub-s. (5) of s. 133 enables us to hold that a breach of sub-s. (1) of s. 133 does not have the result contended for by Counsel for the chargor company, for the reasons herein before mentioned. The case of *Co operative Central Bank Bhd. v. Syarikat Bukit Tinggi & Ors.* was, therefore, rightly decided by Mohamad Dzaiddin J (now a Federal Court Judge) in favour of the chargee, on the ground of the effect of sub-s. (5) of the Act. It follows, therefore, that the case of *Che Wan* was wrongly decided.
>
> To summarise, our conclusion is that accepting that the charge transaction did breach s. 133(1) of the Act, no civil consequences flowed therefore, that is to say, no voidness or unenforceability attached to the loan or the charge transactions, regard being had to the context and purpose of s. 133(1), and especially the principle underlying s. 133(5), as explained above, which regrettably the learned Judge failed to take into account or to give proper weight to, with the result that his judgment cannot stand.

I now refer to s. 111 of Ordinance No.155 (Companies) of the Straits Settlements which is probably the distant predecessor of ss. 67 and 133. It reads as follows:

> (1) No loan shall be made by any banking or insurance company or by any deposit, provident or benefit society to any director or officer of such company or society or to any firm of which any director or officer of such company or society is a partner, except upon securities in which a trustee may invest under the powers of Ordinance No. 144 (Trustees) and the value of which exceeds the amount lent by 30 per centum.

(2) A list containing the amounts lent every month under sub-s. (1) and the names of the director or officers to whom such loans have been made together with the amounts previously lent which have not been repaid shall be prepared, and a copy thereof shall on or before the first Monday in every succeeding month be sent to the Registrar.

(3) No such company as aforesaid shall lend any part of its funds upon the security of its shares.

(4) If any loan is made in contravention of this section, any director or manager of the Company or society shall be liable to a fine not exceeding $1,000, and shall also be liable for the payment of any portion of the amount lent which remains unpaid after deducting the amount realized on the securities.

(5) If default is made in complying with sub-s. (2) any director or manager of the company or society shall be liable to a fine not exceeding $50 for every day during which the default continues.

Sub-section (3) prohibits a company from lending any part of its funds upon the security of its shares. Subsection (4) provides for criminal sanctions and civil liability for a breach of the section. In *The Batu Pahat Bank Ltd. v. The Official Assignee of the Property of Tan Keng Tin, A Bankrupt* [1933] MLJ 237 the question that arose for determination was whether a security given in breach of s. 111(3) was invalidated. The question was answered in the negative by Lord Russell of Killowen who in delivering the advice of the Privy Council in that case said at pp. 238-239:

> The question then arises whether s. 111(3) of the Companies Ordinance operates to invalidate the security or whether it merely prohibits the making of a loan on security under pain of incurring the specified penalties and liabilities. The answer to this question, which is the crucial question in the case, depends upon the true construction of the language used in the section, and this, in their Lordships' opinion, is, by sub-s. 4, made reasonably clear. Sub- section 4 deals in terms with the case of "any loan ... made in contravention of this section." It was argued that this sub-section only refers to a loan made in contravention of sub-s. 1; and that the words "the securities" refer only to the securities for a loan within sub-s. 1. Their Lordships cannot so hold, without giving to the words used a meaning which they simply do not bear. Sub-section 5 shows that the legislative power when it desired to do so, did in terms refer to the infringement of a particular sub-section. Their Lordships can do no other than say that sub-s. 4 means what it says, and that it deals with any loan made in contravention of the section, including, therefore, a loan by a banking company of part of its funds upon the security of its shares. If that event happens sub-s. 4 specifies the consequences, and they include a personal liability on directors and managers for "the payment of any portion of the amount lent which remains unpaid after deducting the amount realized on the securities." **This is**

> **a recognition by the sub section of two things, *viz.* (1) the continuance of the security on which the loan was made and (2) the discharge of the debt *pro tanto* by the proceeds of its realization.** In the face of this it seems to their Lordships impossible to say that s. 111(3) operates to invalidate a lien which would, apart from that sub section, be an effective lien.
>
> *For these reasons their Lordships are of opinion that the appeal should succeed, that the orders of Terrell, J, and of the Court of Appeal should be set aside, and an order made declaring that the bank have a valid lien on the 110 fully paid shares for the principal and interest due to them in respect of the loan. (Emphasis added).*

The transparent ratio to be discerned from the cases that I have anatomised is that a contract which is prohibited by statute does not become void and unenforceable if the statute itself saves the contract or there are contrary intentions which can reasonably be read from the language of the statute itself. Section 24 cannot apply to such a contract for the obvious reason that the statute itself has saved the contract which was otherwise forbidden. As Gibbs ACJ observed in the passage from the *Yango* decision which I have reproduced in an earlier part of the judgment it is only in a rare situation in which a statute prohibits a contract but nevertheless reveals an intention that it shall be valid and enforceable. Section 67 is one of the instances of such rare exercise of legislative power. I therefore hold that as s. 67(3) prescribes penalties for a breach of s. 67(1) and s. 67(6) provides remedies for the breach and, furthermore, having regard to the context and purpose of s. 67(1) any transaction entered into in breach of the section is valid and enforceable. In the circumstances the agreement in this case does not become void and unenforceable. The corollary is that the transaction entered into by the parties is valid and, in consequence thereof, the 1st defendant may enforce payment arising from the allotment of the shares for which it gave financial assistance. I pause to refer to the reliance of the plaintiff on *Mookapillai & Anor. v. Liquidator, Sri Saringgit Sdn. Bhd. & Ors.* [1981] 2 MLJ 114 and *Kidurong Land Sdn. Bhd. & Anor. v. Lim Gaik Hua & Co.* [1990] 3 MLJ 485 in support of his submission. My short answer to the two judgments is that in the case of the former no reference was made to s. 67(6) while in the case of the latter only a brief reference was made to s. 67(6) unlike the principle of law lucidly enunciated in *Co-operative Central Bank Ltd. (In Receivership) v. Feyen Development Sdn. Bhd.* [1995] 3 MLJ 313 which, in the circumstances, is more convincing. In the light of my conclusion it is unnecessary for me to consider whether the allotment of the shares can be validated under s. 63 of the Companies Act 1965. Neither is it necessary for me to consider whether, on the facts of this case, the Court should come to the aid of the Plaintiff based on authorities such as *Sajan Singh v. Sardara Ali* [1960] MLJ 52; *Tinsley v. Milligan* [1993] 3 All ER 65; *Wai Hin Tin Mining Co. Ltd. v. Lee Chow Beng*

[1968] 2 MLJ 251 and *Lee Chua (f) v. Mustafa b. Osman* [1966] 1 AMR 680 which was affirmed by the Court of Appeal (see [1966] 2 AMR 2566).

Notwithstanding what I have said thus far I must point out that the declarations sought by the plaintiff are to render only the allotment of shares to the 2nd defendant as void. My immediate response is that s. 67(1) only prohibits the giving of financial assistance for the acquisition of shares and not the acquisition of the shares itself which is perfectly lawful unless there is evidence, of which there is none, that it was illegally alloted by, for example, not following the proper procedure. The allotment of shares to the 2nd defendant is therefore not hit by s. 67(1) and is thereby not invalidated in any way (see *Spink (Bournemouth) Ltd. v. Spink* [1936] 1 All ER 597; *EH Dey Pty. Ltd. (In Liquidation) v. Dey* [1966] VR 464) without the need to invoke s. 67(6). This, however, is subject to an important qualification. As the allotment of shares in this case is connected with the financial assistance provided by the 1st defendant the activation of s. 67(1) depends on whether both the transactions can be severed. If they can, then the transaction relating to the acquisition of shares does not come within s. 67(1) (see *Carney v. Herbert* [1985] AC 301). It is not necessary for me to decide whether the two transactions can be severed for two reasons: firstly, it was not argued before me; and, secondly, it is not relevant for obvious reasons as the result would be the same whether the transactions are severable or not. If they are severable the allotment of shares is valid as it is not prohibited by s. 67(1). If they are not severable the composite transaction will be governed by s. 67(6) and will still be valid.

(d) The Locus Standi Of The Plaintiff

The language of s. 67(6), as it then stood, makes it clear that only the company has the locus standi to institute an action in respect of a transaction entered into in contravention of s. 67(1). It was perhaps to remedy this anomalous situation that the words "... or any person ..." were added after the word "... company ..." in s. 67(6) by Act A836. As this amendment was not made with retrospective effect the plaintiff is still bound by s. 67(6) as it stood prior to the amendment with the result that he is precluded from instituting a suit under s. 67. In this respect the amendment of the capacity of the plaintiff by the addition of the words "... suing on behalf of himself and all other shareholders of Sarjana Sdn. Bhd. except the 2nd defendant" does not alter his *locus standi* in any way.

The upshot of the issues that I discussed is that the plaintiff's submissions cannot be sustained. Accordingly I dismiss his claim with costs.

Reported by Ling Hea Hoon